



Missouri Department of Elementary and Secondary Education

— Making a positive difference through education and service —

May 20, 2003

TO: School District Administrators

FROM: Gerri Ogle, Associate Commissioner, Administrative and Financial Services
Dale Carlson, Director, School Finance
Tom Quinn, Director, School Governance

RE: May Financial Information

Staff Changes

A retirement in the Division of Special Education has resulted in the promotions of two people in School Finance. Effective June 1, Dale Carlson will assume the position of Coordinator of Administration in the Division of Special Education. Dale has been in School Finance for eleven and a half years and has provided great leadership these past four years as Director of School Finance. While we will miss him in that roll, we congratulate him on this promotion.

Denise Pierce will assume the position of Director of School Finance. She has been in the School Finance Section for four years. Prior to joining DESE, she worked in the State Auditor's Office and assisted many of you with tax rate calculations and questions. She will continue to lead School Finance in providing quality assistance to districts. Please give her your encouragement and support.

Due to reductions in DESE's operating budget, the resulting vacancy in School Finance will not be filled but the responsibilities will be reassigned to other consultants. In addition, Jennifer Jordan is on maternity leave. The staff will continue to respond to your questions as quickly as possible, but with these changes there may be more delay than we would like.

Prior Year (2001-02) Proration Factor - Basic Formula Adjustment

Each year the prior year apportionment is recalculated from November through the following June. Therefore, the amount due the district for 2001-02 will be recalculated each month from November 2002 through June 2003. There will likely be prior year corrections in June 2003 due to continued data corrections which change the 2001-02 proration factors. A detailed explanation for the prior year apportionment recalculation was provided in the November 2002 monthly memo. The 2001-02 proration factors have decreased from the June 2002 factor as follows:

	<u>Lines 1A & 14A</u>	<u>Lines 1B & 14B</u>
June 2002 Proration Factor:	1.00000000	0.97852605
November 2002 Recalculation of the 2001-02 Proration Factor:	0.99951523	0.94951523
December 2002 Recalculation of the 2001-02 Proration Factor:	0.99957995	0.94957995
January 2003 Recalculation of the 2001-02 Proration Factor:	0.99951498	0.94951498
February 2003 Recalculation of the 2001-02 Proration Factor:	0.99952404	0.94952404
March 2003 Recalculation of the 2001-02 Proration Factor:	0.99953339	0.94953339
April 2003 Recalculation of the 2001-02 Proration Factor:	0.99957333	0.94957333
May 2003 Recalculation of the 2001-02 Proration Factor:	0.99964492	0.94964492

Current Year (2002-03) Proration Factor

Two Basic Formula calculations were made for the November (1st Live) payment. The first calculation, labeled as SASM 1355, represents the Basic Formula calculation using statutory language in effect prior to August 28, 2002 (prior to the implementation of

HB 1711) and is referred to as the 2 month calculation. The proration factor used in that calculation represents the proration of available Basic Formula and Line 14 dollars using the previous definitions of the formula. The 2 month formula calculation will not be recalculated each month. The second calculation completed in November, labeled as SA 128, represents the Basic Formula calculation subsequent to the implementation of HB 1711 and is referred to as the 10 month calculation. The SA 128 Basic Formula calculation will be recalculated each month. Be aware that the proration factors will decrease again in June 2003.

	<u>Lines 1A & 14A</u>	<u>Lines 1B & 14B</u>
November 2002 SASM 1355 (2 Month Calculation-Current Year)	0.97914239	0.92914239
November 2002 SA 128 (10 Month Calculation-Current Year)	0.99748091	0.94748091
December 2002 SA 128 (10 Month Calculation-Current Year)	0.99722573	0.94722573
January 2003 SA 128 (10 Month Calculation-Current Year)	0.99720839	0.94720839
February 2003 SA 128 (10 Month Calculation-Current Year)	0.99644158	0.94644158
March 2003 SA 128 (10 Month Calculation-Current Year)	0.99199626	0.94199626
April 2003 SA 128 (10 Month Calculation-Current Year)	0.98673749	0.93673749
May 2003 SA 128 (10 Month Calculation-Current Year)	0.98167478	0.93167478

The proration factors in the June 2003 calculation will be approximately .98 for Lines 1A and 14A and .93 for Lines 1B and 14B reflective of the \$61.3 million withholding in the Foundation Program. We continue to hear that state revenue for 2002-03 is below the revised conservative estimates. Consequently, an additional withholding of funds from the Foundation Program is possible in June 2003. While we do not know the amount of a potential additional withholding, it is possible that the proration factors in the Basic Formula and Line 14 could decrease between one-half percentage point and one percentage point. We will inform you as soon as possible of any additional withholding.

2003-04 Basic Formula Budgeting

The 2003-04 budget approved by the House and Senate reflects \$185.1 million reduction in statewide funding for certain Foundation Program areas: \$163.2 million for Basic Formula and Line 14 aid, \$19 million for transportation aid, and \$2.9 million in gifted education aid.

You were informed last week by a communication from Commissioner King that we have prepared a simulation to show the approximate impact of these reductions on aid for Basic Formula, Line 14, transportation and gifted in each school district. You may access the simulation at <http://dese.mo.gov/>.

Again, we remind you that this report does NOT project actual payments for your district. We do not have all the data that will be used in the calculations for FY04. Consequently, the proration factors used in this latest simulation are higher than they will be when we use the new data. **More realistic proration factors, if the reduction remains at \$185 million, are .91 on Lines 1A and 14A, and .86 on Lines 1B and 14B.**

These numbers are NOT final. This week the Governor may announce vetoes of some budget bills. There continues to be disagreement concerning the amount of revenue available. Revenue collections continue to be below forecast. In addition, there may be a negative impact on Missouri's revenue from the federal income tax changes under consideration by Congress. Any amount that the final budget and revenue are out of balance will have to be addressed possibly through additional withholdings in FY04. There are very few areas for Governor Holden to make further cuts without going to elementary and secondary education and higher education. Other areas have already been cut very deeply and further reductions are likely to be minimal.

Estimated proration factors at the 2003-04 General Assembly adopted reduction as well as other potential reduction levels are:

<u>Reduction Amount</u>	<u>Lines 1A & 14A</u>	<u>Lines 1B & 14B</u>
\$163.2 million (General Assembly budget)	.91	.86
\$200 million	.895	.845
\$300 million	.87	.82

Be very conservative in your 2003-04 revenue projections.

2002-03 Budget Revisions

The 2002-03 school year is proving to be the first of likely many difficult years from a budget perspective. The budget document, while always an important financial planning tool, becomes even more critical as expected revenues fluctuate and year-end adjustments to expected revenues occur. As the district completes the 2002-03 fiscal year, the district's budget should be reviewed and compared with actual expenditures. In reviewing district audit reports, auditors frequently cite budgets not in conformance with Chapter 67, RSMo. This generally involves a district's actual expenditures exceeding the budgeted expenditures for one or more funds. Other times, a district's budget reflects more in expenditures than the beginning balance plus anticipated revenues (budgeted for a negative fund balance). Both of these situations are violations of the budgetary requirements in Chapter 67, RSMo.

If the actual expenditures in a fund are expected to exceed the amount budgeted for that fund, the law requires that the budget be amended to increase the budgeted expenditure amount for that fund to equal or exceed the actual expenditure. This type of amendment should be approved by the board before the expenditures that exceed the budget are approved. **Please note that this does not mean the district must amend the budget to reflect actual expenditures in all categories. Amending the district budget to actual expenditures limits the usefulness of the budget as a financial planning tool in future years.** Individual expenditure categories may be in excess of budgeted amounts, but the total expenditures by fund are not to exceed the budgeted amount.

If not currently doing so, the district should consider preparing quarterly (or monthly) comparisons of budget to actual reports as part of its financial oversight. Such reports would assist in identifying potential problem areas and facilitate amendment of the budget document on a timely basis.

2003-04 Proposition C Sales Tax Payment Projection

The 2003-04 budget approved by the House and Senate reflects projected Proposition C revenue at \$693,947,458. This is a projected increase of 5% over the estimated 2002-03 amount. Through May 2003, the 2002-03 Proposition C revenue was 0.62% below the same year-to-date revenue for 2001-02. If that decrease continues through June, the 2002-03 revenue will be approximately \$660,955,547. The 2003-04 revenue projection made several months ago may no longer be realistic. The following table provides estimated 2003-04 and actual prior year amounts.

	Estimated or <u>Actual Revenue</u>	Estimated or <u>Actual EP</u>	Amount <u>per EP</u>
2003-04 Budget Estimate	\$693,947,458	875,000	\$793.08
2003-04 No Revenue Growth Estimate	\$660,955,547	875,000	\$755.38
2002-03 Estimated Revenue	\$660,955,547	864,000	\$764.99
2001-02 Actual Revenue	\$665,079,037	853,392	\$779.33

A conservative projection appears to be the 2002-03 estimated revenue divided by the projected 2002-03 eligible pupils (EP) yielding \$755.38 per EP. Further reduction in revenue will decrease the amount per EP. Be as conservative or optimistic as you choose.

2003-04 Fair Share Payment Projection

The 2003-04 budget approved by the House and Senate reflects projected Fair Share revenue at \$23,225,250. This is a projected increase of 1.6% over the estimated 2002-03 amount. Through May 2003, the 2002-03 Fair Share revenue was 0.23% below the same year-to-date revenue for 2001-02. If that decrease continues through June, the 2002-03 revenue will be approximately \$22,868,678. The 2003-04 revenue projection made several months ago may no longer be realistic. The following table provides estimated 2003-04 and actual prior year amounts.

	Estimated or <u>Actual Revenue</u>	Estimated or <u>Actual ADA</u>	Amount <u>per ADA</u>
2003-04 Budget Estimate	\$23,225,250	855,000	\$27.16
2003-04 No Revenue Growth Estimate	\$22,868,678	855,000	\$26.75
2002-03 Estimated Revenue	\$22,868,678	844,000	\$27.10
2001-02 Actual Revenue	\$22,921,396	836,424	\$27.40

A conservative projection appears to be the 2002-03 estimated revenue divided by the projected 2002-03 average daily attendance (ADA) yielding \$26.75 per ADA. Further reduction in revenue will decrease the amount per ADA. Be as conservative or optimistic as you choose.

2003-04 Free Textbook Payment Projection

The 2003-04 budget approved by the House and Senate reflects projected Free Textbook revenue at \$89,650,000. This is a projected increase of 7.95% over the 2002-03 amount. The 2002-03 Free Textbook total revenue of \$83,046,981 was approximately a 12% increase over 2001-02. The 2003-04 revenue projection made several months ago may no longer be realistic. The following table provides estimated 2003-04 and actual prior year amounts.

	Estimated or <u>Actual Revenue</u>	Estimated or <u>Actual Membership</u>	Amount per <u>Membership</u>
2003-04 Budget Estimate	\$89,650,000	890,000	\$100.73
2003-04 No Revenue Growth Estimate	\$83,046,981	890,000	\$ 93.31
2002-03 Actual Revenue	\$83,046,981	883,589	\$ 93.98
2001-02 Actual Revenue	\$71,753,266	884,745	\$ 81.10

A conservative projection appears to be the 2002-03 actual revenue divided by the projected 2002 membership yielding \$93.31 per membership. Further reduction in revenue will decrease the amount per FTE membership. Be as conservative or optimistic as you choose.

Students Eligible for Free or Reduced Lunch-Edit Form

The February 2003 Core Data cycle included the collection on Screen 15 of the students eligible for free or reduced price lunch as documented through the application process and/or through the direct certification process. The Students Eligible for Free or Reduced Lunch-Edit Form was mailed to all districts on May 1, 2003. Please review and follow the instructions on the form. Return the signed form with any needed revisions to School Finance by **May 30, 2003**. The criteria for each type of free or reduced price lunch eligible student count are:

Federal Programs Head Count of Free or Reduced Lunch Eligible Students

- Report the head count taken on January 29, 2003 of children ages 5-17 inclusive (as of October 1, 2002) who reside in the district, whose eligibility for free or reduced lunch is documented (through the application process using federal eligibility guidelines or through the direct certification process) and who do not attend a private or parochial school.
- Report students on a head count basis. (Both part-time and full-time students are counted as 1 in the head count process.)
- Eligible students are counted regardless of whether or not they actually eat lunch/breakfast.
- Students are reported by their county of residence. Desegregation students are counted by the district in which the student resides.

SB 380 FTE Resident Free or Reduced Lunch Eligible Students

- Report the full-time equivalency count of resident students enrolled in grades K-12 on January 29, 2003 and in attendance at least one of the 10 preceding school days whose eligibility for free or reduced lunch is documented (through the application process using federal eligibility guidelines or through the direct certification process). Desegregation students are considered residents of the district in which the students are educated.
- Report eligible students on a full-time equivalency (FTE) basis. A student attending one-half day is counted as .5, one-fourth day as .25, etc.
- Eligible students are counted regardless of whether or not they actually eat lunch/breakfast.
- Nonresident students are to be counted by the district which pays the tuition for those students and are reported as "Resident II Students".
- Do not count students for whom the Department does not distribute state aid. (Students in preschool, the Parents as Teachers Program or state schools are not counted for state aid purposes.)

National School Lunch Count of Free or Reduced Lunch Eligible Students

- Report on the monthly lunch claim for food service reimbursement the highest number of students eligible for free or reduced price lunch during the month being reported.
- Report students on a head count basis. (Both part-time and full-time students are counted as 1 in the head count.)
- Eligible students are those eligible for free or reduced price meals that have access to the lunch program. This eligibility would include PK students and students up to age 21 that are enrolled in a high school grade and are allowed access to the lunch program.
- Eligible students are counted regardless of whether or not they actually eat lunch/breakfast.
- Students are reported by the district in which they are educated.

School District Bond Fund

No reimbursement will be made in 2003-04 on costs of issuance for new or refinanced bond issues occurring during the 2002-03 year. No reimbursement will be available for costs of issuance for new or refinanced bond issues occurring during the 2003-04 year.

2002-03 Audit Schedule of Selected Statistics

A copy of the 2002-03 Schedule of Selected Statistics that is to be included in the 2002-03 audit report is available on the web at: [http://dese.mo.gov/divadm/finance/audits/FY03 SoSS.pdf](http://dese.mo.gov/divadm/finance/audits/FY03%20SoSS.pdf). The district should print and keep a copy as a reference when it reviews the 2002-03 audit report prior to submitting the audit report to DESE. The district is encouraged to compare the information the auditor reported on this Schedule to the data the district submitted on Core Data, the Annual Secretary of the Board Report, or other reports and resolve any differences prior to submitting the audit report to School Finance.

Revenue Object and Expenditure Function Code Changes

Changes to the *Missouri Financial Accounting Manual* have been made throughout the past year to Revenue Object Codes and Expenditure Function and Object Codes effective in the 2002-03 school year. These changes have been identified in previous School Finance Memos and will be incorporated into the next revision of the *Missouri Financial Accounting Manual*.

Please ensure that appropriate district staff are aware of these changes and have incorporated them into the current year accounting process. Accounting code changes may be found on the WEB by going to the School Finance WEB page:

<http://dese.mo.gov/divadm/finance>

Click on: "Accounting Manual"

Scroll down to: [Revenue/Expenditure Code Changes for 2002-03](#)

2002-03 Annual Secretary of the Board Report

The planned release date for the 2002-03 Annual Secretary of the Board Report (WEB application) is June 16, 2003. Access to the web pages will be the same as the 2001-02 process using an assigned userid and password. Because the DESE payment file information will not be available until the last week in June (used in the ASBR edit process) and the district's fiscal year does not end until June 30, districts will only be able to enter and save data to the web screens prior to July 1, 2003. Districts will not be able to "SUBMIT" a 2002-03 report until after July 1, 2003.

No major structural changes have been made to the 2002-03 report. Updates, notes or concerns relating to the ASBR or ASBR process will be listed on the School Finance WEB page: <http://dese.mo.gov/divadm/finance> click on "ASBR". Users should start watching the DESE Application Menu on or about June 16 for ASBR program availability.

The 2002-03 Annual Secretary of the Board Report (ASBR) must be submitted on the WEB based format by the due date of midnight, August 15, 2003, or the September Basic Formula and Line 14 (Free & Reduced) payments will be held until October. Continued delay in submitting the ASBR will result in continued holding of the payment.

Attendance Reporting

MAP Testing - During MAP testing, some districts may have chosen to release some students who are not involved in the testing process (such as seniors), allow some students not involved in the testing process to come to school late, allow students to come to school at the time of the test, etc. While the district may make such decisions, the district cannot count the student as being in attendance during those hours the student was absent. **A student is not to be counted as in attendance unless the student is actually present and under the direct supervision of a certificated staff member.** If the district has claimed attendance for students under this particular condition, it must revise Core Data Screen 14 for the previous year as well as adjust the current year attendance records.

Excused Absences - A district may have policies allowing an excused absence for various purposes such as illness, religious beliefs, testing, etc. However, there is no authority to give attendance credit for students neither in attendance nor under the direct supervision of a certificated teacher. Students must be in attendance in an instructional capacity under the direct supervision of a certificated employee of the district to be counted for attendance purposes.

Early Dismissal of Seniors – While a district may make the decision to dismiss seniors prior to the last day the school is in session, no attendance can be reported for such students. Students must be in attendance in an instructional capacity under the direct supervision of a certificated employee of the district to be counted for attendance purposes.

GTB/Line 1 Transfer

School Finance continues to receive questions regarding the local board's responsibility when making the GTB/Line 1 transfer. Section 165.011, RSMo, states that this amount, "...*may only be transferred by a resolution of the school board approved by a majority of the board members in office when the resolution is voted upon and identifying the:*

- *specific capital projects to be funded by the transferred funds (specific project(s), not simply "future projects" or normal capital outlay of the district.), and an*
- *estimated expenditure date;...*"

The board resolution reflecting the above information is a requirement for every GTB/Line 1 Transfer, whether or not the district was in certificated salary compliance in the prior year. **The board resolution authorizing this transfer must occur prior to the end of the current fiscal year (June 30).** Districts not in salary compliance in the prior school year are limited in the amount of GTB/Line 1 Transfer to no more than the calculated "adjusted expenditure" amount. These districts may not build a balance in the Capital Projects Fund using the GTB/Line 1 Transfer. Districts meeting certificated salary compliance (certain restrictions apply) in the prior year may build a balance in the Capital Projects Fund with this transfer. These districts may transfer any portion of the calculated GTB/Line 1 Transfer up to the maximum calculated amount without regard to current year expenditures.

Enrollment, Membership, and Attendance Reporting for Students Attending Districts Outside Their District of Residence

District Paid Tuition - When the district of residence pays another district full tuition, the district of residence (domicile district) will report membership and attendance but not enrollment for that student. The district receiving the tuition and educating the student will report non-resident enrollment only for that student. Such students are reported as Resident II students by the district of residence. The district educating the student must provide attendance and membership data to the district of residence. The district of residence receives the state aid on this student and uses the state aid in paying the tuition.

Parent Paid Tuition - When a parent pays tuition for a student to attend another district, the district of residence (domicile district) will not report enrollment, membership or attendance for the student. The district receiving the tuition from the parent and educating the student will report non-resident enrollment only. Neither district will receive state aid on this student.

Local Effort - When a district pays local effort only (as opposed to full tuition) to another district for a student attending that district, the district paying the local effort will not report enrollment, membership or attendance for that student. The district receiving the local effort payment and educating the student will report enrollment, membership and attendance hours as a resident student. The district educating the student receives state aid for this student.

Cash Management for Federal Funds – Reminder

The Department of Elementary and Secondary Education is required by the federal government to inform its subgrantees of certain cash management requirements. The Department is to ensure that the district minimizes the time elapsing between the receipt of federal funds and the disbursement of those funds.

At the state level, there is a maximum of three days between receipt of federal funds and the distribution of those funds to the school districts. At the district level, however, the Department recommends that the time between receipt and expenditure of funds be as small as possible. If the district does not ensure that federal funds are managed in this fashion, the district could be subject to an audit exception by the district's independent auditor, which could result in interest due back to the federal government.

Questions concerning this issue may be discussed with the district's independent auditor.

DESE Web Address Change

The DESE Web page address has been changed to: <http://dese.mo.gov>. The old address of <http://www.dese.state.mo.us/> will be available until December 31, 2004 to give users time to change bookmarks and get used to the new web address.

SCHOOL GOVERNANCE**Support Staff Workshops**

The February Finance Memo included information on and an application for the Plant Support Staff Workshops to be held this summer in five locations. It would be helpful, if your district plans to send staff to the workshops, to return the application as soon as possible. The workshop information is available on the web at <http://dese.mo.gov/divadm/govern/workshops.html>.

SCHOOL TRANSPORTATION**May Payment**

The district's May 2003 state transportation aid calculation (BU110) for the 2002-03 payment cycle is now available on the web. This calculation is based on the 2001-02 school year data taken from state transportation aid documents and the Annual Secretary of the Board Report (ASBR). The percent of reduction to the calculated entitlement computed for the May 2003 payment is 17.137437%. This reduction percentage fluctuates from month to month as revisions are made to individual school district data. If you are using the transportation aid calculation computer program or the Excel spreadsheet, the May 2003 state constant for the A factor is 2.140686 and the B factor is 1.470928.

2003-04 Transportation Budget Estimate

The budget appropriation approved by the House and Senate for the transportation state aid formula for the 2003-04 school year is an approximate 12% reduction from the FY03 level of \$162,067,713 (before the withholding) to \$143,051,705. For purposes of planning a district's transportation budget for 2003-04, it is estimated this will result in an approximate 29% appropriation adjustment on the district's Calculation for State Transportation Aid, Line 53, or approximately 71% of Line 52, District Entitlement.

Transportation Calculation Excel Spreadsheet Available for Budget Projections

A link is available on the School Transportation website under Entitlement Calculation. This link is a Microsoft Office Excel spreadsheet of the transportation aid calculation. After the district downloads this program, the district simply inputs the ridership, mileage, expenditure and revenue data and the program will calculate the district's transportation aid based on that data. The district should then save the program on its computer. The proration percentage and the state constant A and B factors must always be updated with the latest and/or projected numbers.

Carpenter School Bus Problem

The following information was received from the School Bus Information Council (SBIC) concerning Carpenter school buses. The structural and safety concern was discovered when a Carpenter school bus rolled over in a Florida bus accident in March and crushed the school bus to the seat line.

Since sending out a notice on April 14, 2003, about a potential for cracked or broken welds in the roof structure of Carpenter Type "C" and "D" school buses built at its Mitchell, Indiana, plant between 1986 and 1995, more important facts have developed. Accordingly, the following additional information is provided:

- 1. Inspection of Carpenter school buses in various parts of the country has revealed cracked and broken welds in the roof structure. The problem is clearly not confined to Florida where it was first found.*
- 2. Inspection of some Type "B" Carpenter school buses has revealed cracked and broken welds in the roof structure.*
- 3. ALL Carpenter school buses built at the manufacturing facility in Mitchell, IN used the same roof design.*
- 4. Each Carpenter school bus includes a 6-digit body number that appears on the Carpenter body data plate. If that 6-digit body number starts with the number 4, then the bus was built in the Richmond, Indiana, plant and utilizes full-length body bows. This design does NOT need to be inspected.*
- 5. Based on the above information, the School Bus Information Council believes it would be prudent for states and local school districts to inspect the welds in the roof structure of all Carpenter school buses (Type "A," "B," "C," and "D") that were manufactured in Mitchell, IN, from 1986 to approximately late 1995.*
- 6. The 6-digit body number that appears on the Carpenter body data plate starts with any number other than the number 4, then the bus was manufactured in Mitchell, IN, and should be included in the inspection.*

Certified School Bus Driver Instructors

A current listing of the certified school bus driver instructors is available on the School Transportation website at <http://dese.mo.gov/divadm/trans/index/html>. This listing includes an expiration date for each instructor's certification. If you discover that an employee needs to be recertified this summer, the March 2003 School Finance mailing included information and registration forms for the summer certified school bus driver instructor workshops.

Website Address Change

School Transportation's new Web address is <http://dese.mo.gov/divadm/trans/index/html>. Please update your bookmarks. The new address does NOT include "www".

DESE Homepage Address: <http://dese.mo.gov>